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INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE  
RUEHAR/AMEMBASSY ACCRA 2982  
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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 000670

SIPDIS

AF/S FOR B.WALCH  
DRL FOR N. WILETT  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS  
STATE PASS TO USAID FOR J. HARMON AND L. DOBBINS

E.O. 12958: DECL: 08/18/2019  
TAGS: PGOV PREL ECON EFIN ZI  
SUBJECT: BITI PRAISES IMF, LAMENTS LACK OF "FISCAL SPACE"

Classified By: CDA Katherine Dhanani for reason 1.4 (b) (d)

¶1. (C) SUMMARY: Finance Minister Tendai Biti told Acting Treasury A/S Baukol on August 3 that Zimbabwe showed signs of macroeconomic stabilization but still faced serious problems.

Biti said the Government of Zimbabwe's (GOZ) lack of revenue meant Zimbabwe was "still a failed state," but technical assistance from the International Monetary Fund (IMF) was "a joy." While Biti wants budget support from donor governments, he may delay a "Friends of Zimbabwe" pledging session originally planned for October. Even though Biti said he agreed with the IMF's advice that it was best to save a windfall of Special Drawing Rights (SDRs) for a rainy day or to help pay arrears, he was ready to spend some of it on "strategic investments." He insisted once again that he had buried the Zimbabwe dollar for good, but contrary signs from other GOZ figures make this a source of continuing uncertainty that undermines Zimbabwe's economy. Biti said he has had no interference from other members of the cabinet, but he concedes that the slow progress of political reconciliation is Zimbabwe's biggest problem. END SUMMARY.

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"Still a Failed State"  
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¶12. (C) Finance Minister Tendai Biti met for over an hour on August 3 with Charge and Treasury's Acting A/S for International Affairs Andy Baukol. Biti said stabilization of prices, growth of financial services, and a 2 percent increase in tourism during the first half of the year showed that Zimbabwe's economy was recovering. But despite growth in GOZ revenue (USD 4 million in January, USD 90 million in July), Biti said Zimbabwe needed budget support. "We have no fiscal space," Biti said. He added that Zimbabwe was receiving practically no foreign direct investment, electricity production met only 20 percent of demand, and lines of credit for business had dried up. "We are still a failed state," Biti lamented.

¶13. (C) Biti noted recent positive developments. He emphasized the value of technical assistance from the IMF.

Four teams had visited Harare, the most recent working on tax reform. Biti said the IMF's support was "the best thing that has happened" during his tenure as finance minister. "They have been a joy to work with." Biti also said that he encountered no resistance within the cabinet to his reform measures. He said there had been "no discussion at all" on some of his decisions.

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Donor Meeting Delayed?  
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¶4. (C) Biti said the Ministry of Finance would soon distribute invitations to donor governments for a "Friends of Zimbabwe" meeting in October. He said it would be a "Marshall-Plan type of conference." Charge and Baukol noted that it might be premature to take such a step and in any case Zimbabwe might need more than two months to complete the kind of careful preparation that would be required to host a successful pledging session. A low-key meeting to explain policies and anticipated needs might be a better first step. Biti agreed with this advice and said he would delay the conference until 2010.

¶5. (C) Biti appeared keen to find external assistance to finance some form of economic stimulus. While he agreed with the IMF's view that it was best to keep in reserve Zimbabwe's new allocation of SDRs, Zimbabwe might draw a portion of it to finance "strategic investment," such as road construction. "We are close to turning this thing around," he said.

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"There is economic activity, but we need a catapult -- a road, a new parliament building -- even if it is a white elephant."

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Zim Dollar Still Dead  
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¶6. (C) A/S Baukol asked Biti about possible plans to reintroduce the Zimbabwe dollar. Recent statements from Central Bank Governor Gideon Gono had led some observers to suspect that this was under consideration. Biti replied, "That's just whining. I have said repeatedly it is not coming back. Demonetization put a tombstone on the grave of the Zimbabwe dollar." But he appeared to back away from efforts to replace Gono, one of President Mugabe's key allies. "We have depersonalized the issue," Biti said, by narrowing the governor's mandate in draft revisions to the central bank law. (NOTE: Biti said the draft law would be gazetted on August 7, but it was not published until August ¶14. END NOTE.)

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COMMENT  
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¶7. (C) Biti can justly claim progress on stabilization, but that is partly because Zimbabwe is coming back from nearly absolute macroeconomic destabilization. He touched on a ore important truth when he suggested that Zimbabwe's most important challenges were political, not economic. The lack of unity in the "Government of National Unity" is the principal source of uncertainty that has stalled the flow of credit Zimbabwe needs for sustained recovery. As long as the GOZ remains less than the sum of its parts, Biti's own success as minister will not translate into permanent progress for the economy. END COMMENT.

¶8. (SBU) This cable was cleared by A/S Baukol's office.

DHANANI